Implementation Note: Public Accounts / Auditor General's Opinion

Commitment:
[placeholder]

Context: Consistent with other provinces, Ontario prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS), issued by the Public Sector Accounting Board.

The audit opinion on the Province's 2016-17 consolidated financial statements included two qualifications by the Auditor General (AG) related to:

- Pension accounting; and
- Reporting the market accounts of the Independent Electricity System Operator (IESO).

Additionally, as a result of proposed reporting of the Global Adjustment Refinancing, (a component of the plan to reduce current electricity prices), the Auditor General has indicated that she may issue an adverse opinion on the 2017-18 financial statements.

Implementation Requirements: Resolution of any of these issues will require policy and/or legislative amendments to alter the transactions to facilitate a reassessment of the accounting. Any changes that would result in updates to the accounting for the 2017-18 consolidated financial statements must be in effect prior to the release of the Public Accounts, which must be within 180 days of the fiscal year end (i.e., on or before September 27, 2018).

Implementation Plan:

1. **Net Pension Assets**

The Public Accounts currently recognize a net pension asset from the net surplus for accounting purposes of the jointly-sponsored pension plans: Ontario Teachers' Pension Plan (OTPP) and the OPSEU Pension Plan (OPSEUPP). The accounting for these plans has been consistent since 2001, and was without qualification by the Auditor General until 2016.

A discussion with the Office of the Auditor General (OAG) is planned to re-examine the OPSEUPP before the issuance of Public Accounts in an effort to resolve that plan's issue, however, the more significant component of this issue is related to OTPP.

Resolution regarding OTPP would require the government to commence dialogue with the Ontario Teachers' Federation on changes to the governance of the pension plan. Changes in governance could either focus on addressing concerns raised by the AG in an effort to have the AG agree with the current application, or could focus on reducing the Province's decision-making power, which would remove the net pension asset and any in-year surplus/(deficit) impact for the change in the net asset value.

2. IESO's Reporting of Market Accounts

IESO is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAS. It administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.

In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively. A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in IESO's accounting for the market accounts.

In reviewing any change in policy direction, some of the accounting considerations to resolve the reporting of the market accounts include:

- the adoption of a provincial accounting policy to adjust the IESO financial statements and remove the market accounts (and any rate-regulated) balances from the consolidation financial statements;
- the review of the accounting classification of the IESO; assessing if it can be classified as a Government Business Entity or a Trust Under Administration (reported under IFRS), which would change the reporting of the IESO.

3. Global Adjustment Refinancing

The difference between the Province's accounting for the Global Adjustment Refinancing and that of the AG is based on differing opinions on the application of rate-regulated accounting under PSAS. When PSAS is silent on an issue (as is the case here), professional judgment is applied in determining the appropriate financial statement presentation.

The following policy decisions would impact the accounting for the Global Adjustment Refinancing:

- amend *Ontario Fair Hydro Plan Act* to remove the debt recovery from future ratepayers through the Clean Energy Adjustment, thus providing a permanent rather than temporary reduction. The lack of a recovery mechanism would result in the impact of the reduction from the Global Adjustment Refinancing being recorded as an increase to the annual deficit;

- amend the terms of the trust agreements with the Financial Services Manager of the Fair Hydro Plan Trust (currently OPG) to bring the Fair Hydro Plan Trust under the direct control of the Province requiring the debt to be consolidated as a government organization (line-by-line); however, this option does not change the accounting by the IESO re: rate-regulated accounting.